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UNITED STATES DEPARTMENT OF AGRICULTURE  
Federal Extension Service  
Washington 25, D. C.

11/30/56

STATE DELEGATES REGISTERED FOR  
THE 34th ANNUAL AGRICULTURAL OUTLOOK CONFERENCE

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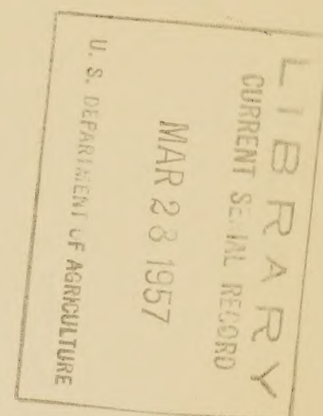
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Mr. J. B. Olsen



Federal Extension Service  
U. S. Department of Agriculture

WELCOME TO NATIONAL AGRICULTURAL OUTLOOK CONFERENCE\*

On behalf of all of us here I take great pleasure in welcoming you State Extension people and other guests to this 34th annual National Agricultural Outlook conference. Getting the results of research to the farmers, handlers, and consumers is not easy, but you can take a great deal of pride in knowing that your work is contributing to the welfare of all groups and is much appreciated by them.

Supplying facts about current and past economic situations and possible trends which help people to make their own decisions on plans for the future, is most essential for efficient and properous farming and for a balance in agricultural production. I believe very strongly in outlook work. I believe that people in general, as well as farm people, deserve the best in economic and outlook information.

Research and education have contributed to the great fund of knowledge about technical production practices. Good management also requires a wealth of information that reflects the tremendous impact upon farming that comes from economic and other off-farm forces arising from a myriad of developments and decisions made by many individuals, groups, and governments. You specialists and the county extension agents are bombarded daily with questions that need a sturdy base to help them get the facts to farmers in order that they can make sound economic decisions.

People ask such questions as: Should my sons stay in farming? If so, in what types of enterprise? Should I expand the size of my operations to make efficient use of mechanized equipment and other resources? When should I market my livestock or my wheat? These are only a few of the questions that farmers must answer on the basis of information which you can provide.

Intelligent decisions by the people asking the questions will depend upon the completeness of the information you provide the county agents and the thoroughness with which you summarize and present this information in analyzing the factors basic to making sound decisions. Extension has the responsibility to see that farmers have the most accurate and complete information available. Providing farmers and handlers with the necessary outlook information is a tremendous task which calls for the best teamwork possible in analyzing, assembling, and disseminating the information.

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\*An address by C. M. Ferguson, Administrator, Federal Extension Service, U. S. Department of Agriculture, before the 34th annual National Agricultural Outlook Conference, November 26, 1956, 9:30 a.m., e.s.t., Washington, D. C.



Here in Washington, D. C., we have capable economic analysts preparing the many situation reports and other materials. We are happy that you will have an opportunity to hear from them and to meet many of these authorities this week. The State extension staffs then take this information and, in cooperation with their economic and other research people, perform the next big task, that of adapting the national outlook to their particular State and region. Yet this is just the beginning. The next job is one of method--of getting the information out to farmers in a form that they can understand and use. It becomes a team job within each State.

The outlook specialists, along with those in marketing, management, and production fields, must apply that information in their individual efforts. The problem of disseminating this information clearly, concisely, and convincingly, is tough. County extension agents must play a key role in getting out essential facts on agriculture and the farm family outlook.

How well they play that role depends to a large degree on you. We do not see it as a one-shot deal to be performed after an outlook conference, but a continuing job to be done every week--during every season.

Several of the States have already conducted meetings on the outlook for 1957, because farmers needed this information in buying their feeder cattle, in providing for their feed requirements, and in other farm decisions. This speaks well for the kind of year-round job you are doing. This Outlook Conference coming now gives you an opportunity to go back with perhaps additional information to reemphasize points you have already made.

Some of you have responsibilities in other subject-matter areas, and sometimes this may seriously limit the thoroughness with which you can do outlook work. As an ex-extension specialist, I know that one of the important decisions each of you makes concerns which jobs have priority. Some of them may have to be left undone. It is important that the jobs you do take on are done thoroughly.

The training of your county staffs is a continuous job. This takes time but pays big dividends when county staffs are informed, are confident of their information, and are trained to analyze and weigh the various economic factors with their farmers when assisting them in making decisions.

Many of you are members of teams at home that are working on farm and home development. Many of the people with whom you are working, in farm and home development, are younger people just getting started. It is important that you have as clear a picture as possible of the longer time outlook in helping those people get started on a sound and efficient basis.

This year the Department people are working hard to get more longer time outlook into the program. I know that you will welcome their emphasis in this area.



Another important job that many of you are assisting with is "program projection". Counties are organizing to take a hard look at the longer time picture and plan their extension programs accordingly. The longer time outlook and the work and projections of current trends based upon the best assumptions done by the people in AMS and ARS, this past year, should supply much information that is pertinent in the deliberation of county committees in projecting the future course of extension programs.

We have too many folks living in situations where they are unable to make their greatest contribution to the economy of our Nation. The rural development program was devised to attack this problem. It is different from the usual farm management approach of the efficient commercial farm operator. One of the important considerations that you people are beginning to develop with farm people in areas of low farm income is that of analyzing opportunities. Not all of these opportunities are in agriculture. A combination of sound outlook information and broad general knowledge of economic conditions in industry available to some of these people is necessary as they appraise the potential in their future.

We, in the Department of Agriculture, are cognizant of the great importance of providing the best outlook information possible. The committee of State representatives and Department people who advised with us in planning this conference are striving to make the information you receive here as helpful as it can be made.

In conclusion I would like to say that what you will do here is extremely important to farm people, to agriculture in general, and to the Nation. We know you have many questions; we hope you will go home with most of these answered. As in the past, we hope you will feel free to bring these questions out for full discussion.

This is truly your week. I know that you will make the most of it. We hope that you will keep in close touch with us throughout the year as new problems, new questions, and new situations develop.

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UNITED STATES DEPARTMENT OF AGRICULTURE

Washington, November 26, 1956

Freer Flow of World Trade Cited as Key to Nation's Future Economic Development:

Expansion of world trade through the reduction of trade barriers and the economic development of underdeveloped countries is the key to future economic growth of the United States, stated Dr. Clarence B. Randall, special consultant to President Eisenhower on foreign economic policy, at the opening session of the 34th Annual National Agricultural Outlook Conference here today.

"There is no separating of economic policy from political policy," said Randall, "and it is my job, as well as the job of every citizen, to see foreign policy as a whole. For in the long-run, it is public opinion, not governments, that determine foreign policy."

"Unless we know what we are seeking, we cannot measure our accomplishments," stated Randall, as he outlined the purposes and objectives of our foreign policy. As I see them, said Randall, they are (1) the military security of our Nation, (2) the future economic well-being of our country and the world at large, and (3) the association around us of nations that share our social and cultural values.

Elaborating upon the economic development of the United States and other free-world nations, Randall stated that one of the prime laws of economics is that "What goes out must come in -- and vice-versa." We must buy if we are to sell, he said, and we cannot maintain our domestic economic expansion unless the whole free-World is our market. But to do this, stated Randall, we must be as willing to buy as we are to sell.

"It takes real insight and character to rise above self-interest and to see the problems of trade as a whole," said Randall, as he called for a renewed effort by every segment of the Nation's economy to break down and break through barriers

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to international trade and development. He reminded his audience that, in a democracy, you cannot favor one economic group without another paying for it.

Randall outlined three methods for advancing free-World trade (1) the use of multilateral instead of bilateral trade agreements, (2) by helping underdeveloped countries develop their economy, particularly their light industry, and (3) by the reduction of such trade barriers as restrictive tariffs and consumer taxes on imported goods.

Extension service workers from each of the 48 States and Puerto Rico are attending the four-day Outlook Conference which started at 9:30 a.m. this morning in the Department of Agriculture's Jefferson Auditorium.

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X World Outlook X  
an address by  
Clarence B. Randall  
Special Consultant to the President  
before  
Agricultural Outlook Conference  
Department of Agriculture, Washington, D. C.  
November 26, 1956

Mr. Wells, Ladies and Gentlemen:

These introductions, they're something. I call it a liberal outpouring of vegetable oil.

It is a wonderful thing to have the chance to open one's mind by meeting with this great audience, representing as it does every phase of our American life, and I'm so happy to know that there are representatives here this morning from some of our country's allies. Most of these countries I have had the privilege of visiting.

It was arranged this morning that I would make the informal talk and Mr. Stein who is sitting here will make the intelligent talk later. I am a sort of renegade in being here because all of my ancestors as far back as I have had ancestors, and that goes quite a ways, were farmers. I have been giving the blood a rest for this generation.

My field is foreign economics policy, my responsibility is the coordination of foreign economic policy as to those problems which cross departmental lines. In fact, there is no separation of economic from political policy, and by political, of course, I mean the relationships of our country with other nations. It is a part of my job to try to see policy as a whole, because there are times when economic policy would seem to be wrong from the political view point, and sometimes political actions make no sense in economics, and one must balance the one against the other and strive for the fair middle course. And it seems to me that it is the obligation of the individual citizen, in these critical times, to try to see foreign policy as a whole, and take all individual decisions in the light not of what is best for self interest, but of what best serves the welfare of our country. That is not always easy to do and yet in the last analysis it is not government that forms foreign policy; it is the public opinion of our people. And if we individually learn to make all of our decisions first in terms of what is best for our country, and only secondarily in terms of what is best for ourselves, then the sum mass total of that individual thinking will make us collectively right in the field of foreign policy.

I'd like to give you this philosophical background if I may on this subject. I put to you first the question which is constantly in my mind, what are the purposes and objectives of the foreign policy of the United States? Unless we know what it is that we are seeking to accomplish in the world, we cannot know whether if we are doing it well, we cannot determine the propriety of a particular plan or program. I'll give you my view point and ask you to take it home with you, reflect on it and form your own.

I think there are three things we seek to accomplish with our foreign policy. First, the military security of our nation. That was the obvious purpose of the Marshall Plan, which had to be established on a crash basis overnight as an aftermath of the world disaster of World War II. We were unprepared for it, psychologically, we were unprepared for it administratively. We had no great trained group of dedicated men and women who could and would leave their tasks and undertake this vast new responsibility. There were errors of administration but never for a moment have I doubted that the Marshall Plan saved Western Europe. The very announcement saved Italy and France, and today we have a Western Europe which in my judgment would be back of the Iron Curtain had it not been for the Marshall Plan. And as we sense the threat to the world that we hold dear from the other side of the Iron Curtain, let us ask ourselves what would the situation be if every nation clear to the Atlantic Ocean were a satellite. So that motive continues still, to give military security and protection to our people.

But our aims today are far broader than that. We think next of the future economic well being of our country. I need not tell this audience the urgency in the future of having the whole world for a market, a market for the produce of our land, a market for our industry. We no longer can continue this burgeoning rate of self expansion unless the whole world is our market. And for that reason we endeavor to build the economic strength of friendly nations. That too, serves security. It is important both for security and for our own future development that economic well being be more widely distributed around the world.

And then in the third place, obviously, we seek to associate around us nations that share our cultural and spiritual values. I would like to think that my grandchildren would live in a country that had for its allies the largest number of nations that share the ideals to which we are dedicated. Primarily, the preservation of the sanctity of the individual.

Now how do we achieve these objectives, which are both economic and ideological?

The first medium at hand is the expansion of trade. A rising volume of world trade serves American interest from every point of view. That seems to be so clear and so obvious that I sometimes wonder how thoughtful people can place impediments in the way of a rising volume of world trade. I think everyone that knows me knows that I hold deep convictions about the soundness of the present drive to reduce barriers to world trade and advance toward the day when the entire world may be a common market. And yet there are certain very simple laws of economics which those who strive to obstruct the development of world trade seem never to have learned, or seemed to have lost in the fog of self interest.

The first is that what goes out must equal that which comes in. There is no way that our nation can continue to export unless those exports are offset and balanced by equivalent imports of goods and services. I come from Chicago. I hear much of the development of Chicago as the great port of the future. Read our literature and you would think we're going to make a backwater out of New York harbor when the seaway is completed. And yet I



doubt if that can come to pass unless those ships that are to trade to my beloved city carry goods both ways. Strangely enough, some of my friends who are most determined to make Chicago the great port of the future are equally determined to permit no imports.

The second principle is that in a democracy you cannot benefit artificially one segment of the American people by setting aside economic law unless somebody else pays for it. In our country in this question of liberalized trade the great forgotten group is the consumers. They are the people who pay. They have no lobby in Washington. As far as I know they're represented by only one group, the women. God bless the women for representing the consumers of the United States and lifting their voices in their behalf. I could illustrate, and I hope I would give offense to no one, this principle that you cannot benefit one segment without someone paying from your own field of agriculture. There was the question of our denying imports of dairy products from Holland. Forthwith Holland denied the importation of flour milled from American wheat. The net effect of which was that the wheat farmer picked up the check for the dairy farmer. It didn't bother me. There was the question and always is the question of the importation of oats from Canada. And when that question comes up our friends across the northern border say "suppose we deny the import of citrus fruits into Canada." The net effect of that would be that the citrus farmer would pick up the check for his other friend. There is the question of the importation of fuel oil from Venezuela into the U. S. An embargo is being sought by the coal industry. Yet if we should deny Venezuela the right to ship her fuel oil into the U. S. (For the moment world events have made an anachronism of that question.) Nevertheless, those dollars which go to Venezuela come back to Delaware, New Jersey, New York and New England in the way of orders for manufactured goods, and to shut off the flow of Venezuelan oil to U. S. is a policy calling for the shutting down of factories in those four States. It takes some insight, it takes some character to rise above self interest and see that as a whole. When we are unable to take all the fish fillets that Iceland would wish to ship to us, they are taken by the Soviets. Also, we came close to losing our base in Iceland thus jeopardizing the security of our country. However, these illustrations are merely to indicate the necessity for each of us to rise above our own special interest and see policy as a whole.

Now, how is trade advanced in the world? It is advanced first of all by the cause of multilateralism. In the old days we made bilateral contracts or agreements, nation to nation. They never work because world trade is a pool, and what we sell to X country may be paid for by imports from the Y country because X and Y have a relationship direct between themselves.

Now the rules of international trade are established by the GATT. This audience knows about the GATT, but American businessmen do not. (General agreement on trade and tariff.) I don't need to explain to you its function. It makes world trade orderly by endeavoring to work gradually and selectively toward the reduction of trade barriers.

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Now the new instrumentality that is required to make trade regulation by the GATT more effective is OTC. That is the agency you will hear much of in the coming Congress, I hope. You did in the last Congress. The administrative agency which is proposed would operate as the housekeeping agency to supervise the GATT. If that measure should be introduced again in the Congress I hope the American people will support it, because it is required as the watchdog over our own export trade. Some of our friends on the other side of the Atlantic have been wonderously ingenious in reducing the tariff reciprocal to our reduction of a tariff to permit ostensibly our goods to move into their areas, and yet to take that away by an internal tax that offsets it. The function of the OTC will be to guard against that.

Now the pattern of world trade today is very distorted, particularly in the new nations. Some people speak of the underdeveloped countries, because that's where the future of the world lies. Now the pattern of trade with those countries is very difficult because a new nation has nothing to export ordinarily except the fruits of her soil which, above all things, is what we want to export. It is pretty hard to trade with a fellow who is trying to sell the very thing you are trying to sell. Now our effort in those countries is directed toward diversity in the development of those economies. We need in those countries to take men from the soil, train them in light industry, and begin that diversification of the economy which will make for greater strength. Sometimes American industrialists think, "what, use our money to establish a competitor with me in some remote country of the world?" Well, the answer to that is that America's best customers for private industry are our strongest competitors. Canada is probably our best market and Canada is a good customer because Canada is economically strong. As we strengthen the economies of the developing nations we give assurance to the future for the United States.

And frankly I don't care much where that economic strength comes from. I'm not so disturbed as many people are about the Soviets spending their money to develop the backward nations, because I don't think they're ever going to be able permanently to control the backward nations. Our effort looks to the long pull. Whatever strengthens a new nation is an added guarantee that in the future our economic welfare will be served, and our cultural relations improved.

We now come to the question of aid, economic assistance as to which there is great misunderstanding in our country. I go to trade association and business meetings and hear considerable profanity about the "give away program." Profanity coming from friends of mine who will not stop and listen and will not ask the thoughtful questions they should. Now here is our present aid picture; something like  $4\frac{1}{2}$  billion dollars of a total 70 billion dollars. Out of that 70 billion of our national budget keep in mind that 35 billion is for our own defense. Did it ever strike you strange that the American people keep asking for more and more money to be spent for making war, and are less and less for waging peace? Out of this  $4\frac{1}{2}$  billion, 60% is military hardware to countries like Turkey. Of the 40% that is left, again 60% of that is for the support of the economies of countries that are required for

our military security. They are four: Turkey, Viet Nam, Taiwan and Korea and no thoughtful person aware of the facts would want to think for one moment of abandoning any one of those four to the outer bastions of American defense. How important Turkey is to us today, standing under the shadow of the Soviets, adjacent to the turbulent Middle East, next to Syria which is wavering in its loyalty to the West.

Recently I was in Turkey and was speaking -- I said what I believed. I said when the brave Turkish airman stands by his plane in Turkey he protects my home in Chicago, and that when the brave American airman stands by his plane in Greenland he protects the homes in Ankara.

That leaves only about  $\frac{1}{2}$  billion dollars out of a total of 70 billion which is devoted to the development of stronger economies among our new allies and the advancing of our ideological and cultural relationships. It is not understood usually that all economic aid has been terminated in Europe except Berlin, West Berlin, some in Spain, and a little in Yugoslavia. It is not generally understood that all economic aid as such has been terminated to Japan, and if there is any one nation in the world essential to our welfare at the moment it is Japan. For unless Japan stands on our side we lose all of Asia. And by all of Asia I mean the threat approaches Hawaii and Alaska, and yet how do we requite Japan for her standing by our side? We cut off economic aid and make it difficult for her to market her products in our country. We cut off her markets in Asia. We are asked at times to curtail exports to her such as steel scrap which is so necessary for her economy.

Now there is the picture of financial aid. I am sorry for being so long but I get a little steamed up over this. There are other things that we do for these nations. The second misunderstanding people do not evaluate properly is how difficult it is to aid young nations because of their incapacity to be aided. You can't serve a Thanksgiving dinner to a man who is being fed intravenously. These young nations have no man-power reserve. They have no people skilled in management, no people skilled in the entrepreneur concept.

I talked with a man the other day who had just come back from Indonesia, a country of 70 millions of people, and he told me that in the last year before the new nation took over they were able to graduate only about 248, I believe he said, from high schools, and only 37 from institutions of higher learning. There is no depth of experienced man-power to carry on in their own behalf in their native towns to do the reconstruction and the building and development that must be done.

There are of course, also, our loan programs and by that I mean the world bank under the distinguished leadership of Mr. Eugene Black, and the Export-Import Bank under the leadership of Mr. Sam Naugh, who is so competent and so rich in experience in these problems. And now that wonderful new organization the International Finance Corporation under Mr. Robert Garner's leadership, which will be a first approach to the affording of risk capital to other nations.



And then we have the whole field of private investment. Now causing private investment to flow to developed country from the United States is lots easier said than done. As a matter of fact the capital squeeze in the United States is so intense at the moment that the average man says why should we worry, put it in our own business, why should we go over there? Then disturbances like those going on in the Middle East frighten people away from the new countries.

New countries are not psychologically attuned to the free enterprise way of life. They have no reservoir of private savings for the money is in the State. They are accustomed to the State operation of enterprises. They do not understand our desire to promote private initiative. In fact, I sometime wonder whether, if it not a fair question as to whether our programs with regard to these countries may be said to foster socialism and statism, as distinguished from private enterprise. I do think we have to recognize that these countries are in a transition period. There's not many of them yet capable of doing the job in free enterprise fashion and they must be dealt with with understanding.

Well, there my friends are some of the things that we do but I have left out of course, technical assistance, the lending of experts in these countries in your field and in other fields in order that they may have the benefit of our know how. There is one special problem in this field though, that I may speak of and then I shall close, and that is the new problem of the soviet trade penetration in the underdeveloped or developing countries. Statism, State trading and free enterprise are locked in a desperate struggle to determine which shall survive in these nations, and the American business man finds it a very difficult kind of competition to contemplate. In the first place the Russian economy has been built on industry, and has ignored somewhat agriculture. They are in a perfect position to trade with these countries because they need foods and fibers, and have a lot of industrial goods to export in exchange. Then, Mr. Mikoyan can go to another country and in 24 hours make a deal that's breathtaking in its size because he possesses the power to match that kind of trading. Of course, the weakness in it is that as they buy the goods they are buying the ideas of the new countries. Many of them are not sensitive to the loss of liberty that is involved through those associations. That's a part of our ideological job. Then, the thing I fear for American industry is that this drive of the Soviets particularly in capital goods like locomotives, trains, and what not will preempt those markets as against American industry for the future because as Mr. Mikoyan sells 20 locomotives to the X country he sends with it technicians who train the natives in the operation of that equipment. Thereafter the Soviets will get the spare part business, and the reorders and the replacements, and first you know the economy of the new country is geared to the type of equipment sold by the Soviets and not by ours. Then Mr. Mikoyan goes to Karachi let's say, and says, "what would you like most," they say a hundred mechanical engineers. He says, "done, they will be here next Tuesday at 8 o'clock." Now, how does anybody in the United States deliver 100 mechanical engineers anywhere at 8 o'clock? So that great new problem is one that we are all struggling with. It must be faced and I shall be surprised if Yankee ingenuity doesn't find the way to lick it. In fact, I haven't the slightest



hesitation in exposing the whole world to Soviet trading. If we can't trade the pants off them then we aren't the people I think we are, I beg your pardon.

Well, that gentlemen is a rundown on some of the problems that we struggle with in the field of foreign economic policy. It is an exciting subject. In fact I don't get gloomy about life at all. The headlines are bad but I think this is a wonderfully, exciting, adventurous time to be alive. I'm glad I'm here, I'm glad I am privileged to have a part in it, because I think America is on the march, and that everything is coming our way.

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UNITED STATES DEPARTMENT OF AGRICULTURE

Washington, November 26, 1956

Agricultural Outlook Conference Hears Economic Development Official:

Herbert Stein today told 134 agricultural and home economists from the 48 states and Puerto Rico attending the 34th National Agricultural Outlook in Washington, D. C., it is a mistake to believe we have left the danger of recessions behind. Also, he said, it would be a mistake to believe that "built-in stabilizers necessarily make the economy depression-proof". Mr. Stein said, however, that he was not predicting either a depression or recession.

Mr. Stein, who is Director of Research for the Committee for Economic Development, spoke on "Problems of Economic Policy". The speaker said he was confident that factors that caused major depressions in the past would not now cause depressions of the "same magnitude". He cited several factors now serving to cushion business down-turns. These included the new strength of the monetary system, a flexible tax system, farm price supports and unemployment compensation.

Mr. Stein said there may be special reasons for the nation to be on guard during the next four years. Factors to be watched closely include the present capital equipment boom, housing, and consumer buying of major items.

The speaker said economic forces threatening inflation are working more slowly and mildly than a decade ago, "but perhaps more insidiously". The cost of living has been rising slowly, but persistently, he said.

Mr. Stein added that an old prescription for dealing with inflation has recently gained added strength. This consists of encouraging savings among people and in the government.

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Problems of Economic Policy  
an address by  
Herbert Stein  
Director of Research,  
Committee for Economic Development\*  
before  
Agricultural Outlook Conference  
Department of Agriculture, Washington, D. C.  
November 26, 1956

I intend to take the subject assigned to me quite literally. I have been invited to talk about Problems of Economic Policy, and I shall talk about problems much more than about solutions. And, indeed I shall be talking about problems to which I, at least, do not know the solutions. Furthermore, my assignment sets few limits to my subject, and I shall say a little about each of several problems that seem likely to be important in the future. I shall, however, not wander into the area covered by Mr. Randall's talk except to say that, in my opinion, the most important economic problems confronting the United States today lie in the area of our economic relations with the rest of the world, and notably with the underdeveloped world.

It is, of course, our habit in discussing the American economy to talk about its problems and that is the constructive thing to do. But it is worth noticing that the outstanding fact about the American economy is not its problems but its great achievements. Indeed, many of our problems are consequences of our achievements. The tremendous growth of the American economy has given the American people the highest standard of living in the world, and the prospect, in fact the reasonable assurance, of continued increases in living standards. The strength of the American economy has served as the shield of our security in two world wars. The product of our economy has been distributed among the population in ways that are generally regarded as fair. And all this has been accomplished without limitation upon the freedom of the American people. On the contrary, the accomplishment has been a major contributor to the freedom of the American people.

I say these things with some diffidence in the presence of an audience that is primarily concerned with agriculture. I know that American agriculture faces many and serious problems; but, if we take the long view, it is certainly clear that the problems even of American agriculture are not absolute but relative. They are the problems of failure to share adequately in the tremendous fruits of American economic achievement.

But let me turn to problems. Economists of my generation were brought up in the shadow of a great depression. We cannot, even at a time of very high prosperity, begin a discussion of economic problems without first looking over our shoulder to see whether a depression is about to overtake us. For this reason, and not because logic would require that we place it at the head of a list of problems, I should like to say a few words first about the prospect of a depression and of our ability to deal with it.

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\*Views expressed are Mr. Stein's and not necessarily those of the Committee for Economic Development.

We have now experienced ten or eleven years of quite high prosperity interrupted by only two brief and shallow recessions. What are we to make of this experience? A number of interpretations are possible, but I shall only mention two. The first is that we have entered a new era -- real this time -- in which there will be no more depressions and very few recessions even as severe as those of 1949 and 1954. The other is that we have been through a period of prolonged prosperity not essentially different from others in our history, although perhaps somewhat extended in length and increased in strength as an aftermath of the great war. On this interpretation we are subject, as we have always been, to the possibility of economic declines of substantial magnitude.

In my opinion, it would be a mistake to believe that we have left behind us forever the possibility of recessions more serious -- even substantially more serious -- than those of 1949 and 1954. One can without great difficulty visualize combinations of circumstances which would exert a depressing influence upon the economy much stronger than any we have experienced since the end of the war, and probably not essentially different in magnitude from those that set off substantial depressions in the past. What I think we can be confident of is that the same initial, depressing impacts that we have had in the past will no longer create depressions of the same magnitude. The reasons for this are well known and I shall only briefly call them to your attention. They include the new strength of monetary and financial system which assures that we would not in any subsequent recession have the collapse of our money supply that accompanied previous serious contractions; the built-in flexibility of our tax system -- which assures that the aftertax incomes of individuals and businesses would decline in a recession much less than their beforetax incomes; -- and the support that unemployment compensation and farm price supports would give to incomes in a decline. For these reasons and some others I think that the tendency of our economy to multiply an initial depressing impact into a great depression will be very much weaker than it was in the past.

Nevertheless, there is, it seems to me, one great policy problem in this area. This problem is to some extent the consequence of our achievement in strengthening the economy against recession. I would worry that the combination of prolonged prosperity plus awareness of the built-in strength newly added to our economy would generate the belief that our economy is depression-proof. In some respects this would be a constructive belief, but it could have rather serious effects upon policy. I do not think we are yet in the position to be sure that the built-in strength of our economy will give adequate resistance to depression in all circumstances. That is, I think we should be prepared for circumstances in which positive action will be necessary. The means to such positive action are within our grasp. We could, for example, if necessary greatly expand the money supply in a recession and greatly increase individual's and businesses' incomes by cutting tax rates. But if we come to believe that permanent prosperity is the natural and inevitable state of our economy, I am afraid that we shall be ill prepared, psychologically, politically and in many other ways, to take the positive action when, and if it should be necessary -- or at least sufficiently prepared to take the action as quickly as would be desirable. I cannot imagine a deep depression going on for very long in the United States. But I can conceive of one going deeper and continuing longer than would be necessary if we were not excessively confident about the natural resistant and recuperative powers of the economy.



I am not forecasting a recession for 1957. I have made a practice of not forecasting and I do not intend to depart from it at this moment. I am pleased to note that Mr. Koffsky will predict the 1957 economic picture a little later this morning. However, I would say that there is rarely a period when one could look at the American economy for as much as 3 or 4 years ahead and say with assurance that during those years there will not be some tendency for the economy to decline. And, I have a feeling that there may be special reasons for us to be on our guard during the next 3 or 4 years. The plant and equipment boom has been going on for a rather long time and we know very little about the factors that determine the volume of investments that businesses want to make. We have no assurance that the current decline in the rate of new housing starts will reverse itself or can be reversed by public policy and nobody knows whether there is any limit to the American public's appetite for new automobiles.

But all this talk about recession is speculative -- formally necessary to consider, practically requiring some preparations and proper attitudes of mind, but possibly not requiring any action in the medium-term future.

Let me turn now to a problem that is real and present. That is the problem of inflation. During this year the cost of living, which seems to me the most convenient measure of inflation, has increased by between 2 and 3 per cent. If this were all -- if we did not have behind us a recent experience of much greater inflation, and if we could be sure that this current rate of price increase would not be continued or repeated at frequent intervals -- this 2 or 3 per cent would not be something to worry about. But I do not believe that we can justifiably have this confidence. I do not share the view that inflation is inevitable in the American economy. But I do believe that inflation is a real danger, and one that we shall only avoid by some very hard policy actions. I am not talking about inflations of the kind we had during and just after World War II. What I am talking about is whether there will be a persistent, although gradual and intermittent, tendency towards inflation in what we may regard as the normal peacetime economy. I would not exclude from the definition of the normal peacetime economy -- as we may have to live with it in, say, the next ten or twenty years -- the possibility of future Koreas and the inflations that they may bring. But, even if we did exclude such intervals, as we hope history will in fact exclude them, we could not be confident that we shall not have to struggle with the problem of persistent inflation.

The experience from which we might judge the strength of future tendencies toward inflation in the American economy is quite short. Two of the main forces that may strengthen a tendency toward inflation, namely the national commitment to full employment and the power of labor unions, did not exist -- or did not exist to so marked a degree -- before the end of World War II. And, from the end of World War II until early 1951 we did not have in operation one of the main forces to which we must look for resistance to inflation, namely flexible monetary policy. Therefore, the relevant experience extends only from the early part of 1951 to the present.

In the first part of this period, from its beginning until the early part of 1956, the cost of living index was on the whole remarkably stable. But during this year prices have risen on the average at a rate, which if continued, would certainly constitute serious inflation. Are we to regard the earlier period as the normal rule of our economy and the past nine months as a kind of freak unlikely to be repeated -- or repeated only rarely? Or should we regard

the stability of 1951 to 1955 as the product of exceptional circumstances -- the wearing off of which exposed us to the normal inflationary trend of our economy? I cannot, in the time at my disposal, go into the arguments on both sides of these questions. I can only say that I am confident that an objective appraisal of the evidence would be inconclusive -- that is, when all the facts have been studied we really don't know.

There are, it seems to me, two main questions about the prospect for inflation in the American economy. First, will we be willing, when necessary, to pursue sufficiently restrictive fiscal and monetary policy -- that is, taxes high enough relative to expenditures and money tight enough to prevent total demand from being excessive? Second, will wage rate increases tend to out-run the increase of productivity?

With respect to measures to restrain total demand, the chief uncertainty in recent years has been about the reliability of our adherence to a restrictive monetary policy. We have had two recent experiences with tight money -- one in 1953, and the other in 1956. I should say that I use the expression "tight money" here because it is so commonly used in the United States to describe the restraints that we had in both of those periods. In these periods money was really tight, except possibly for a very brief interval in 1953, only by comparison with the United States' experience of the preceding twenty years. It would not be called tight by comparison with earlier American experience or with almost any European experience. However, to return to my point, in both periods of tight money vigorous complaints against the policy were raised. And the ability of the monetary authorities to maintain their policy in the face of the political forces that these complaints might set up was in doubt. However, the policies were maintained and I think one is entitled to reasonable optimism about the willingness of the American public to uphold the hand of the monetary authorities in a policy of monetary restraint so long as that does not result in unemployment.

About the second question, the probable rate of wage increases, there is less certainty. I do not propose to judge whether, under present institutional circumstances, wage rates on the average will tend to outrun productivity. It seems clear that they will in certain conspicuous cases; but, whether they will on the average is much less certain. What is worth noting, however, is that we seem to have no reliable safeguards against the development of a tendency for excessive wage increases; and also that we would be very hard put to it to devise means to deal with such a tendency if it should unmistakably emerge.

I personally find it useful to think about inflation as a symptom of the attempt of the public to extract more from the economy than it is capable of providing. This attempt may take a variety of forms -- the attempt to buy more than the economy can produce, to invest more than the economy is saving, to get more out of the Federal budget than the public is willing to pay for in taxes, or to get more in wage rates than can be supported by productivity. It is perhaps natural that the tremendous achievement of the American economy in providing more and more for the American people should lead to the expectation that it is possible to get even more and faster out of it. The ultimate solution to the inflation danger, if it exists, in my opinion, will then not lie in techniques or devices but in the basic understanding on the part of the American public of the limits to their satisfiable expectations.



Events of the past month have brought to the fore problems much grimmer than either depression or inflation. They have reminded us how precarious and volatile our national security position is. This position has important economic implications, about which I should like to make a few comments.

Our national security position requires the American economy to sustain a present military program that costs about \$40 billion a year. This is a large program. But it does not really create a great problem for an economy that now produces over \$410 billion of goods and services a year.

Problems do arise, however, when one begins to speculate a little about the kinds of requirements that national security may impose upon the economy in the future. One can conceive of at least three conditions in which it might be desirable, in times of peace, for the U. S. to sustain a larger military program than it now has, not only absolutely larger but also larger relative to the size of our economy.

First, it may be decided that the present world situation calls for a larger military establishment than we now have--that is, that the estimates upon which our present posture is based are incorrect. Obviously, the weight of official, authoritative opinion supports the adequacy of the present size and composition of our forces. I have no qualifications for offering an opposing view. But there are enough dissenters around so that we cannot rule out the possibility that a reappraisal would lead to a decision to increase our programs substantially.

Second, Russian industrial production seems to be growing very fast, apparently at a percentage rate higher than our own. This, if true, may give them the capacity to impose heavier burdens upon us. If they decide to use more of their rising economic strength to support more diversified forces, or more expensive delivery systems, or more resilient defenses, we have no choice but to step up our own effort.

Third, the technology of war is in a fluid state, and research is being pushed hard both here and in the Soviet Union. Now, some innovations in military technology reduce costs, but this need not be true in all cases. One can imagine new developments that would make it worth while, and perhaps imperative, for us to spend much more than we are now spending.

None of these contingencies may eventuate. But the consequences of being unprepared to meet them could be so serious that it would be folly to ignore the requirements they would impose upon our economy.

The first requirement suggested by the existence of these contingencies is that our economy should grow rapidly. In general, the larger our total ability to produce the better able we will be to meet the now unpredictable demands of national security. Of course, we want growth for many reasons other than national security, but our world position probably requires us to raise our ideas of the growth rates that we consider satisfactory. Moreover, while the demands of defense are unpredictable, it is probably a good guess that they are likely to be concentrated in certain industries, such as metal-working and electronics. This adds a dimension to our requirements for economic growth that we could not specify in the absence of the security threat.



I shall return to the problem of economic growth in a moment. First, let me say a word about a more specific economic factor that may limit our satisfaction of our national security needs. This is the problem of taxation. As a matter of economics, I believe that we would be able to raise taxes to pay for any amount of national security expenditures that we wanted and that the economy could stand. Taxation, however, is a matter not only of economics but also of politics, that is to say, of agreement. The question that bothers me is whether short of war we could agree upon a tax system to finance a substantial increase of defense expenditures. This problem could arise, and I fear would arise, even though there were unanimous agreement that higher expenditures were desirable and worth paying higher taxes to get. The difficulties of getting agreement on a particular plan for raising taxes might be so formidable that no increase of expenditures would be adopted, or even proposed, unless the provocation were extreme.

The essence of the impasse, as I see it, is that income tax rates in the upper and middle brackets have now reached a point where many people, including myself, regard any further increase as unfair, impractical and economically unsound. At the same time, most of the rest of the population would regard a tax increase that did not include a boost in these rates as entirely unacceptable. The lack of a wider consensus on the elements of a sound tax structure is an impediment to rational decisions about expenditure for national security and for other purposes.

I have been talking about the requirements that national security may impose upon us under conditions that we now call peace. Of course it goes without saying that the possibility of our involvement in limited wars calls for preparations to strengthen the economy against the shocks -- largely psychological -- that such an event would set off. And it appears doubtful that we have fully exploited the possibilities of contributing to the avoidance of general war by hardening our economy to withstand direct physical attack. I have neither the time nor other qualifications for dealing with these problems today. But certainly no realistic appraisal of problems of economic policy in the modern world can abstract from them.

I would like, in conclusion, to say a few words on what is the favorite subject of economic discussions today -- economic growth. Increasing total production and production per man-hour of work is the most attractive line of solution for most of our economic problems, whether they are meeting the requirements of national security, preventing inflation or raising living standards. We are justifiably proud of the rates of growth achieved in the American economy in the past century. But it may well be that these rates will not be sufficient in terms of national security, and even in terms of living standards there is not strong reason to be content with continuation of historical growth rates.

Almost every aspect of economic policy affects economic growth. Unfortunately we do not know to what extent various policies affect growth, and in some cases we don't even know the direction of the effect. For example, we don't know whether a billion dollars spent for education does more to promote growth than a billion dollars spent on highways, or whether either does as much good as a billion dollars of tax reduction. In the present state of knowledge it is not possible either to present a systematic, comprehensive program for economic growth or to isolate out a few policy problems with confidence that they are the key ones. However, there are two areas of policy that I think would rank near



the top in any list of the problems of growth.

One is the adequacy of the supply of savings. This is the classical approach to growth; the traditional prescription for more growth is more saving in order to permit more investment. For twenty-five years this prescription was out of fashion. We learned that more saving did not automatically mean more investment. It might, in fact, mean less investment if an excess of saving caused a deficiency of consumption demand which made investment unprofitable. There were, and still are, people who believe this to be the characteristic state of our economy.

However, in recent years it has again appeared that there would be more investment if there were more saving, and the possibility of promoting saving is again becoming a subject of discussion. One way of doing this is through the Government's budget. The Government might itself save, by running a surplus, or it might levy taxes that bear relatively more on consumption than do the present taxes. But if we seek substantial results we shall, I believe, have to look for ways to encourage the voluntary saving of the great mass of the population. Most of this saving is done through financial institutions, and we shall have to examine whether these institutions are able to offer the potential saver the maximum combination of yield and safety that is permitted by the productivity of the American economy.

Another group of policy problems raised by our desire for more rapid economic growth lies in the field of education. We have become belatedly aware of the efforts that will be required merely to maintain existing standards of education for the fast-growing school age population. But the great contribution of education to economic growth was not made by maintaining standards but by improving them. And the question of how to improve standards would have become critical as we neared universal high school education even if we had not encountered the upsurge of the birth rate. Now that almost every child puts in the requisite twelve years, how can we assure that they, or the most capable among them, get the most out of their time and our resources? Is college education to become universal and free? If not, or even if it is, how do we expose the best people to the best higher education? This whole area bristles with problems for a Federal democracy where higher education has been mainly privately supported.

As we look at the economic problems facing the nation today in comparison with those of ten or twenty years ago an important difference appears. The consequences of failure to solve the earlier problems were clearly and immediately visible. Twenty years ago, failure to solve the depression problem showed up in ten million unemployed. Ten years ago, failure to solve the inflation problem was currently visible in a very rapid price rise.

Failure to solve today's problems would not be clearly visible today. Hardly anyone would be aware immediately of the difference between three per cent and four per cent in this year's rate of growth. The difference between stable prices and a two per cent increase in this particular year would not seem enormous. Whether or not we are preparing our economy adequately to meet national security requirements will probably not have visible consequences in this year.



The effects of failure or success in dealing with today's problems will show up chiefly in the future. This makes it difficult to focus public attention on the search for solutions. But the consequences in the long-run will be large and could be critical.

However, it seems to me that the most serious danger is that we will lose sight of the long-run consequences of our actions. We must keep in mind that the effects of our actions will be felt in the future, and that the future is not a distant land, but a land that is already before us.

Another group of policy problems arises from the fact that we are living in a world that is changing rapidly. The world is becoming more and more interconnected, and the pace of change is increasing. This creates a need for new policies and programs that can deal with the challenges of a rapidly changing world.

One of the most important policy problems is the need for a more equitable distribution of income and wealth. The gap between the rich and the poor is widening, and this is a source of social and economic instability. We need policies that can reduce this gap and create a more equitable society.

Another important policy problem is the need for a more effective system of social insurance. The current system is inadequate to deal with the needs of the elderly, the disabled, and the unemployed. We need a more comprehensive system of social insurance that can provide for the needs of all citizens.

Finally, we need a more effective system of education. The current system is failing to prepare students for the challenges of the future. We need a more comprehensive system of education that can provide all students with the skills and knowledge they need to succeed in the future.